

DEPARTMENT OF REVENUE

FINANCIAL SUMMARY

	FY 2003 EXPENDITURE	FY 2004 APPROPRIATION	FY 2005 REQUEST	GOVERNOR RECOMMENDS FY 2005
Division of Administration	\$ 17,015,715	\$ 17,698,672	\$ 17,618,736	\$ 17,726,017
Division of Taxation	29,939,571	42,136,137	43,277,247	43,710,828
Division of Motor Vehicle and Drivers Licensing	32,706,823	37,083,439	35,788,998	36,142,406
Highway Reciprocity Commission	1,064,522	0	0	0
State Tax Commission	3,051,929	2,823,546	2,790,330	2,837,777
Distributions	211,581,133	227,858,457	234,859,457	234,859,457
State Lottery Commission	123,890,983	122,060,237	121,990,505	122,123,270
DEPARTMENTAL TOTAL	\$ 419,250,676	\$ 449,660,488	\$ 456,325,273	\$ 457,399,755
General Revenue Fund	66,216,732	79,388,409	85,811,637	86,233,266
Federal Funds	836,166	8,048,685	8,993,701	8,998,727
Child Support Enforcement Collection Fund	0	2,398,281	2,620,874	2,621,294
Health Initiatives Fund	47,733	51,429	51,429	52,275
Division of Aging Elderly Home				
Delivered Meals Trust Fund	0	21,604	21,604	21,820
Petroleum Storage Tank Insurance Fund	23,337	23,969	23,969	24,426
Motor Vehicle Commission Fund	636,028	730,427	1,000,139	1,009,263
Conservation Commission Fund	504,989	549,263	686,372	695,661
Department of Revenue Information Fund	849,145	970,916	970,916	979,343
State Highways and Transportation				
Department Fund	44,653,317	47,386,016	46,122,875	46,608,592
Lottery Enterprise Fund	123,890,983	122,060,237	121,990,505	122,123,270
Petroleum Inspection Fund	30,746	31,252	31,252	31,818
Motor Fuel Tax Fund	181,561,500	188,000,000	188,000,000	188,000,000
Full-time equivalent employees	2,119.51	2,156.20	2,113.70	2,110.20

POLICY SUMMARY

Governor Holden's budget for Fiscal Year 2005 provides a total of \$457.4 million for the Department of Revenue. The department serves as the primary revenue collection agency for the state of Missouri. It strives to ensure that all taxes and fees owed to the state are paid, taxpayers are served conscientiously and efficiently, and revenues are collected at minimal administrative expense. The core functions provided by the Department of Revenue include:

- Preparing tax forms.
- Processing tax forms, returns, associated payments, and refunds.
- Titling and registering motor vehicles.
- Licensing drivers.
- Investigating instances of suspected tax or fee avoidance.

Mandatory Initiatives

The Governor recommends the following measures to implement legislation enacted in 2003, enhance revenue collections, and assist custodial parents with child support payments.

- \$315,873 to implement the Missouri Downtown and Rural Economic Stimulus Act authorized by HB 289 (2003).
- \$99,166 to implement the state sales tax holiday authorized by SB 11 (2003).
- \$7,000,000, including \$6,406,621 general revenue, to complete the upgrade of the department's computer-assisted collection system. This is a benefit-based agreement between the state and a private vendor. Payments will only be made if the system identifies new revenues above an agreed-upon baseline.
- \$1,504,126, including \$126,871 general revenue, to meet contractual obligations with the vendor that collects and distributes child support payments.

DEPARTMENT OF REVENUE

POLICY SUMMARY (Continued)

Improved Efficiency

Missouri has always been a low tax state and has, therefore, provided only essential services at a very low cost. The state's already low tax level combined with two consecutive years of declining revenue have led to significant reductions in many programs. However, under Governor Holden's leadership, state agencies have minimized the negative impact on services by dramatically reducing administrative costs and by developing ways to provide remaining services in the most efficient manner possible.

The Department of Revenue has aggressively improved the services it provides and reduced administrative costs by:

- Introducing numerous efficiencies in the collection and processing of income taxes. For example, the department now participates in the federal/state telefile program, which simplifies filing income tax returns for many customers. This has permitted the department to reduce its customer assistance staff. Further, the department simplified tax forms and encouraged the use of electronic filing. The Division of Taxation has dramatically reduced its overtime and temporary staff, but still managed to process tax returns in Fiscal Year 2003 at twice the rate achieved in Fiscal Year 2000. Because of these efforts by the department, a reduction in its budget of over \$650,000 in administrative expenses was possible.
- Reorganizing staff so that sales tax refunds could be processed more efficiently. By sending out these refunds faster, the department saved the state over \$3.3 million in interest charges for Fiscal Years 2003 and 2004.
- Reorganizing and cross-training motor vehicle and licensing staff. Customer wait times in branch offices now average under ten minutes, down from 23 minutes three years ago. Further, staff can now process a single vehicle registration in nine days, when three years ago it took an average of 36 days.
- Developing on-line motor vehicle registration capabilities. This is a time saving service for drivers in participating counties.

Some performance measures the Department of Revenue uses to evaluate its goal of efficiently serving Missourians follow.

	2000	2001	2002	2003
Average number of days to deposit individual income tax payments:				
- Pre April 15	1.9	1.6	.46	.48
- Post April 15	6.3	5.8	5.5	3.5
Delinquent individual income taxes collected (millions)	\$91.3	\$75.5	\$67.0	\$73.0
Delinquent business taxes collected (millions)	\$117.9	\$116.9	\$118.3	\$135.9

In addition to cost-cutting measures already implemented, the Department of Revenue plans to:

- Implement on-line, self-calculating income tax forms to encourage the electronic filing of tax returns. Filing electronically minimizes calculation errors, which constitute the overwhelming majority of mistakes on tax returns. Minimizing these errors will allow the department to process refunds more efficiently.
- Work closely with the Internal Revenue Service to develop provisional federal employer identification numbers. This will result in businesses being able to register with the state more quickly, saving businesses time and money.

Cuts Already Made

The Department of Revenue has worked to minimize the impact of reduced funding on services. However, the department's funding for services has been cut in recent years. Because of these cuts, the department:

- Has significantly reduced courtesy mailings to taxpayers and tax preparers.
- Has been forced to slow the processing of titles and related documents for manufactured housing, marine vehicles, and all-terrain vehicles.

DEPARTMENT OF REVENUE

DIVISION OF ADMINISTRATION

The director of revenue's office is responsible for the processing and enforcement of tax and licensing functions. The general counsel's office assists the divisions with their respective statutory functions, provides research and legislative assistance, and oversees the filing of administrative rules. Human resource services are responsible for the recruitment, training, and development of employees. Technology services bureau provides systems development and support, production control, technical training, database administration, and technical support service throughout the department. Financial and general services are responsible for budgetary, accounting, cash management, mail operations, delivery and archival services, and motor pool services for the department. The criminal investigation bureau investigates suspected tax, motor vehicle, and driver's license fraud, and prepares cases for prosecution.

Fiscal Year 2005 Governor's Recommendations

- \$92,264 motor vehicle commission fund and 2.4 staff to assure funding is properly aligned with duties of criminal investigators.
- \$74,000 to implement legislation.
- \$172,383 for pay plan, including \$68,764 general revenue.
- \$458,852 and 12 staff reallocated from the Division of Taxation and Collection, including \$440,050 general revenue.
- \$295,248 state highways and transportation department fund and eight staff reallocated from the Division of Motor Vehicle and Drivers Licensing.
- (\$1,065,402) and (8.9) staff in core reduction from the Fiscal Year 2004 appropriation level, including (\$184,667) general revenue.

DIVISION OF TAXATION AND COLLECTION

The Division of Taxation and Collection is organized by product type allowing each function to be managed as part of a complete product (e.g., individual income tax, sales tax, etc.). Each product manager is accountable for a product from beginning to end. The division has support functions to facilitate the administration of these products. Collection activities include account management, lien filing, third-party collection referrals, tax clearances, and debt offsets. The division has eight in-state field offices (St. Louis, Kansas City, Springfield, Jefferson City, Joplin, St. Joseph, Columbia, and Cape Girardeau) that handle taxpayer assistance on registrations, resolution of delinquencies, and revocation of sales tax licenses. Tax auditors are stationed in the eight in-state offices and three out-of-state offices (Chicago, Dallas, and New York) to foster compliance with Missouri tax laws by auditing taxpayer records and assisting taxpayers with technical questions.

Fiscal Year 2005 Governor's Recommendations

- \$1,504,126 to meet contractual obligations with the vendor that collects and distributes child support payments, including \$126,871 general revenue.
- \$415,039 and 5.5 staff to implement legislation.
- \$541,227 for pay plan, including \$482,307 general revenue.
- \$323,416 transferred from the Department of Social Services for child support enforcement, including \$33,062 general revenue.
- (\$608,622) and (17.5) staff in core reduction from the Fiscal Year 2004 appropriation level, including (\$477,092) general revenue.
- (\$458,852) and (12) staff reallocated to the Division of Administration, including (\$440,050) general revenue.
- (\$71,643) core reduction for one-time expenditures
- (\$70,000) state highways and transportation department fund reallocated to the Division of Motor Vehicle and Drivers Licensing.

DEPARTMENT OF REVENUE

DIVISION OF MOTOR VEHICLE AND DRIVERS LICENSING

The Division of Motor Vehicle and Drivers Licensing is responsible for administering and enforcing vehicle registration and titling and driver license regulations. The driver and vehicle services bureau titles and registers motor vehicles and watercraft, licenses motor vehicle dealers and boat dealers, and collects state and local sales/use tax and other vehicle fees. The driver and vehicle services bureau also suspends, revokes, and disqualifies driver and non-driver licenses, and administers the mandatory automobile liability insurance program. The customer assistance bureau oversees 182 field offices that provide driver licensing and motor vehicle titling and registration services to Missourians. The field offices also issue and renew operator and commercial driver licenses, non-driver licenses, and permits.

Fiscal Year 2005 Governor's Recommendations

- \$377,749 for pay plan, including \$2,125 general revenue.
- \$70,000 state highways and transportation department fund reallocated from the Division of Taxation.
- (\$593,534) and (24.5) staff in core reductions from the Fiscal Year 2004 appropriation level, including (\$45,761) general revenue.
- (\$500,000) federal funds core reduction for one-time expenditures.
- (\$295,248) state highways and transportation department fund and (eight) staff reallocated to the Division of Administration.

STATE TAX COMMISSION

The State Tax Commission is responsible for maintaining equalized assessed land valuations among Missouri's 114 counties and the city of St. Louis. In carrying out these responsibilities, the commission hears appeals from local boards of equalization on individual cases and corrects assessments that it determines to be unlawful, unfair, or arbitrary. The commission also establishes the taxable valuation for public utility and railroad companies operating in Missouri.

Fiscal Year 2005 Governor's Recommendations

- \$50,989 for pay plan.
- (\$36,758) and (one) staff in core reduction from the Fiscal Year 2004 appropriation level.

**DEPARTMENT OF REVENUE
DISTRIBUTIONS**

FINANCIAL SUMMARY

	FY 2003 EXPENDITURE	FY 2004 APPROPRIATION	GOVERNOR RECOMMENDS FY 2005
State Share of Assessment Maintenance Costs	\$ 16,218,433	\$ 14,985,668	\$ 14,985,668
Certification Compensation	99,225	85,680	85,680
County Stock Insurance Tax	150,000	0	0
Commercial Drivers' License Information System Fees	253,406	275,000	275,000
Problem Driver Pointer System	86,410	60,000	60,000
Attorney Fees	0	15,000	15,000
Motor Fuel Tax Distribution to Cities and Counties	181,561,500	188,000,000	188,000,000
Prosecuting Attorneys and Collection Agencies	2,292,034	2,728,000	2,728,000
County Filing Fees	171,635	200,000	200,000
Contingency Fees for Collection Enhancements	0	2,500,000	9,500,000
Contract Auditors	0	400,000	400,000
Tax Data Matching for Collection Enhancements	0	7,600,000	7,600,000
Multistate Tax Commission Dues	156,811	163,001	163,001
Debt Offset Transfer	10,219,907	10,512,884	10,512,884
Income Tax Refund Designations	371,772	333,224	334,224
TOTAL	\$ 211,581,133	\$ 227,858,457	\$ 234,859,457
General Revenue Fund	29,679,817	38,923,848	45,331,469
Conservation Commission Fund	0	34,609	171,718
State Highways and Transportation			
Department Fund	339,816	900,000	1,356,270
Motor Fuel Tax Fund	181,561,500	188,000,000	188,000,000

STATE SHARE OF ASSESSMENT MAINTENANCE COSTS

The state reimburses a portion of the costs and expenses for maintaining assessments by the county assessors and the St. Louis City assessor.

Fiscal Year 2005 Governor's Recommendations

Continue funding at the current level.

CERTIFICATION COMPENSATION

The state provides quarterly compensation to assessors, except those in first class charter counties, who maintain an education certification with the State Tax Commission.

Fiscal Year 2005 Governor's Recommendations

Continue funding at the current level.

COMMERCIAL DRIVERS' LICENSING INFORMATION SYSTEM

The federal Commercial Motor Vehicle Safety Act of 1986 required states to develop uniform commercial drivers' licensing systems or face the loss of federal highway funds. House Bill 3 (1989 Special Session) made the necessary changes to Missouri law to implement the commercial drivers' licensing information system.

Fiscal Year 2005 Governor's Recommendations

Continue funding at the current level.

DEPARTMENT OF REVENUE

DISTRIBUTIONS (Continued)

PROBLEM DRIVER POINTER SYSTEM

The federal government required states to implement a problem driver pointer system by April 1995 to identify and manage problem drivers or face the loss of federal highway funds.

Fiscal Year 2005 Governor's Recommendations

Continue funding at the current level.

ATTORNEY FEES

Section 302.536, RSMo, requires the Department of Revenue to pay court costs and attorney fees of persons who have an appellate court reversal of a Section 302.535, RSMo, (DWI) suspension or revocation.

Fiscal Year 2005 Governor's Recommendations

Continue funding at the current level.

MOTOR FUEL TAX DISTRIBUTION TO CITIES AND COUNTIES

Article IV, Section 30(a)(2), Constitution of Missouri, requires 15 percent of the net proceeds from the motor fuel tax collections be allocated to the incorporated cities, towns, and villages of the state to assist in the maintenance of streets and highways.

Article IV, Section 30(a)(1), Constitution of Missouri, requires that 10 percent of the net proceeds from motor fuel tax collections be distributed to the counties to assist in the maintenance of county roads, highways, and bridges. On August 4, 1992, voters approved Constitutional Amendment No. 8 to require that 15 percent of the net proceeds resulting from any increase in the motor fuel tax rate over the rate in effect on March 31, 1992, be distributed to the counties to assist in the maintenance of county roads, highways, and bridges.

Fiscal Year 2005 Governor's Recommendations

Continue funding at the current level.

PAYMENTS TO PROSECUTING ATTORNEYS AND COLLECTION AGENCY FEES

Section 136.150, RSMo, provides for payment of a collection fee of 20 percent of delinquent taxes, licenses, or fees recovered on behalf of the state by circuit or prosecuting attorneys. The collection fee is deposited in the county treasury with one-half of the fee for use by the attorney's office and one-half to be expended as the county determines. This incentive program provides additional resources to counties and a five-to-one benefit/cost ratio to the state.

Section 140.850, RSMo, authorizes the Department of Revenue to use commercial collection agencies to collect delinquent taxes owed by resident and non-resident taxpayers (individuals and businesses). The statutes permit payment of a collection fee not to exceed 25 percent of the amount collected.

Fiscal Year 2005 Governor's Recommendations

Continue funding at the current level.

COUNTY FILING FEES

The Department of Revenue is authorized to file tax liens on property owned by taxpayers that are delinquent in income tax or sales/use tax. County recorders charge the Department of Revenue a fee of \$3.00 for the filing of each tax lien and a fee of \$1.50 for each release of a tax lien filed on property owned by taxpayers that are delinquent in income tax or sales/use tax.

Fiscal Year 2005 Governor's Recommendations

Continue funding at the current level.

DEPARTMENT OF REVENUE

DISTRIBUTIONS (Continued)

CONTINGENCY FEES FOR COLLECTION ENHANCEMENTS

The Department of Revenue will contract with a private firm to generate additional collections through enhancements to its Computerized Assisted Collection System (CACS). The vendor will be paid only to the extent that the enhancements generate additional revenue in excess of an agreed upon baseline amount.

Fiscal Year 2005 Governor's Recommendations

- \$7,000,000 to complete the CACS upgrade, including \$6,406,621 general revenue.

CONTRACT AUDITORS

The Department of Revenue will contract by competitive bid for the processing of some business tax audits. The department does not have sufficient personnel to handle the research, analysis, and completion of all corporation audits. Therefore, the contract auditors will be able to identify new audit leads and complete the additional tax audits.

Fiscal Year 2005 Governor's Recommendations

Continue funding at the current level.

TAX DATA MATCHING FOR COLLECTION ENHANCEMENTS

The tax data matching system allows the department to enhance the collection process by focusing on habitually delinquent accounts and those that avoid tax filing and payment to the state.

Fiscal Year 2005 Governor's Recommendations

Continue funding at the current level.

MULTISTATE TAX COMMISSION DUES

The Multistate Tax Commission and Compact facilitate determination of the tax liability of multi-state taxpayers, promote uniformity and compatibility in tax systems, avoid duplicative taxation, and provide taxpayer convenience in filing tax returns.

Fiscal Year 2005 Governor's Recommendations

Continue funding at the current level.

DEBT OFFSET TRANSFER

Chapter 143, RSMo, provides a mechanism to offset debts owed to the state against tax refunds payable to the debtor. The Department of Revenue transfers to the Office of State Treasurer the amount of the debt certified to be owed to a state agency in an amount not exceeding the tax refund claimed. Any amount in excess of the debt is forwarded to the taxpayer. Upon settlement of the claim through the established administrative hearings process, the escrow funds are returned to the state agency and/or the payee.

Fiscal Year 2005 Governor's Recommendations

Continue funding at the current level.

DEPARTMENT OF REVENUE

DISTRIBUTIONS (Continued)

INCOME TAX CHECK-OFF REFUND DESIGNATIONS

State statutes permit individuals and corporations to contribute a portion of any income tax refund that they are owed to five separate state trust funds. The five trust funds include the Children's Trust Fund (Section 210.174, RSMo); the Division of Aging Elderly Home Delivered Meals Trust Fund (Section 660.078, RSMo); the Veterans' Trust Fund (Section 42.140, RSMo); the Missouri National Guard Trust Fund (Section 41.215, RSMo); and the Workers Memorial Fund (Section 143.1025, RSMo). The amounts designated by taxpayers for distribution to the five trust funds are transferred from the general revenue fund.

Fiscal Year 2005 Governor's Recommendations

- \$1,000 for transfer to the workers memorial fund.

DEPARTMENT OF REVENUE

STATE LOTTERY COMMISSION

The Missouri State Lottery was established by voter approval of Constitutional Amendment No. 5 on November 6, 1984. On August 2, 1988, voters approved Constitutional Amendment No. 3 to revise the lottery prize structure and certain promotional restrictions.

Fiscal Year 2005 Governor's Recommendations

- \$132,765 lottery enterprise fund for pay plan.
- (\$69,732) lottery enterprise fund and (two) staff in core reduction from the Fiscal Year 2004 appropriation level.

	FY 2003 EXPENDITURE	FY 2004 APPROPRIATION	GOVERNOR RECOMMENDS FY 2005
Operating Expense			
Personal Service	\$ 6,328,819	\$ 6,650,559	\$ 6,713,592
Expense and Equipment	37,775,694	35,409,678	35,409,678
Prizes	<u>79,786,470</u>	<u>80,000,000</u>	<u>80,000,000</u>
TOTAL			
Lottery Enterprise Fund	\$ 123,890,983	\$ 122,060,237	\$ 122,123,270
Full-time equivalent employees	181.20	178.50	176.50

LOTTERY ENTERPRISE FUND TRANSFER

Section 39(b) of Article III of the Missouri Constitution provides that a minimum of 45 percent of moneys received from the sale of lottery tickets shall be paid as prizes. On August 4, 1992, voters approved Constitutional Amendment No. 11 to dedicate net lottery proceeds to fund public institutions of elementary, secondary, and higher education.

Fiscal Year 2005 Governor's Recommendations

- \$205,600,000 lottery enterprise fund transfer to the lottery proceeds fund.

	FY 2003 EXPENDITURE	FY 2004 APPROPRIATION	GOVERNOR RECOMMENDS FY 2005
Lottery Enterprise Fund	\$ 193,940,550	\$ 192,443,239	\$ 205,600,000